



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

PROBABLE EFFECTS OF THE WAR ON THE FOREIGN TRADE OF THE UNITED STATES ¹

GROVER G. HUEBNER

Assistant Professor of Transportation and Commerce, University of
Pennsylvania

IN the summer and early autumn of 1914 it was the belief of many that American exports would speedily take the place of European wares in the neutral markets of the world, and that the advantages gained under the stress of war would in a large measure prove to be permanent. Particular emphasis was placed upon markets of South, Central and North America, Australasia, the Orient and Africa, for it was there that American and European manufactured wares had been in active competition for more than a dozen years. Though American exporters had made rapid progress, they had been obliged to compete against strongly established foreign rivals. That the intensity of this rivalry would be less so long as the principal European countries were engaged in their campaign of mutual destruction was certain, and it therefore seemed that an opportunity was being offered to American exporters to enter these markets unhindered and so to intrench themselves commercially that when peace returned they would find themselves in a greatly improved competitive position. When their British, German and French rivals later re-entered these markets they could at least make a whole-hearted effort to retain permanently as large a share of trade as possible.

The expectation of acquiring a large deep-sea merchant marine also ran high, and was accompanied by the hope that the gains readily made possible by the neutral position of the United States would in a large measure prove to be permanent. To put these hopes into effect, the ship-registry laws

¹ Read at the meeting of the Academy of Political Science, November 12, 1915.

were so amended as greatly to facilitate the registration of foreign-built vessels under the American flag.

That the export trade of the United States has made a great advance since the outbreak of hostilities is now so well known that repetition seems superfluous. The value of domestic exports in the fiscal year 1915 was \$2,716,000,000 as compared with \$2,329,700,000 in the previous year, and the excess of exports or so-called favorable balance of trade exceeded a billion dollars, while in 1914 it had been less than half a billion. In spite of declining imports, the total foreign trade reached the unprecedented aggregate of \$4,442,759,000; and railroads, vessels and ports are being congested with foreign-bound freight. Meanwhile, the registered merchant fleet of the United States—that portion of the marine which is engaged in the foreign trade—grew from 1,076,152 gross tons on June 30, 1914 to 1,871,543 on June 30, 1915—a net gain of 795,391 tons for the year.

Yet these rapid advances in exports and vessel tonnage do not constitute evidence that the early expectations of permanent trade advantages are being realized. A glance at the foreign trade returns discloses the temporary nature of the export boom and abnormal trade balance; and unless effective action of some sort is taken there is every likelihood that the most of the foreign-built vessels that changed registry during the war will return to foreign flags when peace is declared and neutrality is no longer a commanding trade asset.

The increase in exports has been confined largely to products which are directly dependent upon the European war. Thus, exports of foodstuffs jumped from \$429,956,000 in 1914 to \$902,352,000 in the fiscal year 1915; war munitions, other than big guns, which are not listed, from \$8,127,000 to \$50,027,000; war supplies, such as horses, mules, harness, saddles, aeroplanes, commercial automobiles and tires, wagons, gas oil, fuel oil, barbed wire, horseshoes, and surgical appliances from \$28,993,000 to \$169,520,000; materials for making munitions, such as spelter, lead, brass and brass manufactures, wire rods, steel billets, lathes to be used in making shrapnel, and sulphuric acid from \$36,688,000 to \$132,209,000; hides, leather

and foot wear from \$39,476,000 to \$70,014,000; forage, such as oats, hay, cottonseed cake and meal from \$1,585,000 to \$78,367,000; and textile manufactures from \$56,257,000 to \$99,301,000.

The temporary nature of most of these exports is obvious. One of the cleanest-cut tendencies of the export trade since the close of the nineteenth century had been the relative and absolute decline in the exports of breadstuffs, meat animals, and in late years also of meat products, and it is, therefore, entirely unlikely that the sudden increase in such exports will continue permanently after the war prices come to an end, and Russian and other food supplies again become available. Food exports now include such articles as sugar, which can scarcely hope to hold the European market permanently in competition with European beet sugar. The increased foreign sales of textiles and of hides, leather and footwear were also due almost entirely to the unusual temporary demand in Europe, which normally is not a large market for American wares of this kind. That the shipment of huge quantities of forage to Europe is temporarily brought about by the war is undoubted, a goodly portion being consumed by the American horses and mules which have been shipped to Europe since the war began. The temporary nature of the exports of munitions, war supplies and munition materials are obvious. Not even the prayers of those who are profiting from the manufacture of such wares can continue their exportation permanently when the slaughter in Europe ceases.

There has been no amazing increase in such of the staple exports of the United States as are not dependent upon a war demand, and many of them declined during the fiscal year 1915. The value of cotton exports declined by \$234,257,000; that of iron and steel and manufactures thereof, even including increasing items such as barbed wire and shrapnel lathes, fell \$25,592,000; naval stores \$8,755,000; mineral oils \$18,-481,000; leaf tobacco \$9,470,000; lumber and wood manufactures \$53,236,000, and agricultural implements \$21,661,000. The exports of phosphate rock, paper, coal, tobacco manufactures and electrical machinery likewise declined, and those of

copper declined greatly when Germany, the largest foreign market for American copper, was closed, although in this case the increased demand on the part of American ammunition plants resulted in larger domestic sales. There has been some improvement during the last few months in the shipment of some of the exports which had declined during the fiscal year 1915, but few of them have regained even normal proportions.

The extent to which the early expectation regarding a permanent increase in exports has not materialized is further disclosed by an analysis of the destination of the exports which have been responsible for the temporary advance. Although the proportion of total exports shipped to Europe had steadily fallen since 1900, because agricultural exports other than cotton and leaf tobacco were declining and manufactures found their chief foreign markets elsewhere, the exports to Europe during the fiscal year 1915 suddenly sprang from \$1,486,499,000 to \$1,971,432,000, and from 62.8 to 71.2 per cent of the total export trade. The exports to all of the remaining continental trade divisions, except Africa, declined, although large increases had been predicted. Those to North American countries fell from \$528,645,000 to \$477,081,000, the only exceptions of importance being Cuba and Santo Domingo. Those to South America fell from \$124,539,000 to \$99,324,000, Venezuela being the only important exception. Those to Asia, aside from the shipments to Asiatic Russia which were destined to Europe, declined from \$112,211,000 to \$91,114,000; and the exports to Australasia fell from \$83,568,000 to \$77,764,000. Much improvement has occurred in some of the non-European markets during the last few months of the fiscal year and since then, particularly in the South American countries, but the effects of the war period as a whole have been disappointing so far as the exports to non-European markets are concerned.

It is true that our exports to some of the neutral countries of Europe have increased, particularly those to Denmark, Sweden, Norway, Holland and Greece. Yet these trade increases will be no more lasting than those to the belligerents whose trade routes have not been closed, for they consist mainly of

foodstuffs and other products normally obtained in large part from sources which, because of the closing of the Dardanelles and Baltic and the prior needs of the belligerents, are temporarily not available. The trade with the neutral countries of Europe would have been even larger but for the persistent interference with American trade and shipping by the belligerents, contrary to international law as understood by the United States government. The almost complete cessation of the direct trade with Germany has, moreover, led to the use of substitutes, which may or may not result in a permanent shrinkage in the demand for exports such as copper, cotton, gasoline and phosphate rock.

Instead of being jubilant over a huge excess of total exports over imports, it is more significant to note that in the trade with non-European markets there was an excess of imports, and that it grew from \$120,242,000 in 1914 to \$262,657,000 in 1915. To maintain permanently an excess of total exports such as has resulted from the growing export and declining import trade with Europe since the war began is manifestly impossible under present conditions. It has occasioned one loan of \$500,000,000 and others may follow. Perhaps it is not out of place to suggest that if similar financial assistance had been extended to some of the countries of South America and elsewhere trade gains of a more lasting variety would have resulted.

If the war should continue to rage for a long time to come and the progress which has very recently been made by American exporters in some of the non-European markets should become more far-reaching, something of permanent value may still be accomplished. Otherwise when peace returns, the policy of preferring huge temporary war profits will leave the foreign trade with these markets about where it was before the war began. Indeed the American exporter may find it more difficult than ever to capture his full share of trade in the competitive markets of the world, for his English, German and French rivals will doubtless make a supreme effort to regain any markets which were temporarily lost. Those who at one time believed that some of our great European competitors

would be completely crushed by their military enemies must see that after over fifteen months of struggle there are as yet no indications of such a result. They will all be there when peace is declared, and their aim will be to retake at almost any cost such markets as they have lost. Foreign markets for manufactures are a matter of commercial life or death to Great Britain and Germany; and to whatever extent they may, in their hatred for each other, hesitate to re-establish mutual trade relations, to that extent will they be obliged to seek greater foreign markets elsewhere.

May the United States make hay in South America and other much-sought markets while the sun does not shine in Europe, so as to be able to withstand the severe competition which is likely to arise. Confronted by higher costs of production at home, for the wage advances which the war has occasioned will become a problem after war orders cease to come, the position of the United States in the competitive foreign markets of the world will be none too bright. As regards the Chinese market, moreover, it is uncertain whether in the light of recent occurrences the open door policy which has long been supported by the United States will be fully maintained in the future. It is for these reasons that the establishing of effective banking and credit facilities, trade machinery, steamship lines, and investment relations during the war would in later years be an unmixed blessing to American exporters and importers. The establishment of such facilities would give to them a far better opportunity, not only to retain a portion of their rivals' business, but to develop new trade in the future.

What has been accomplished in increasing the vessel tonnage registered under the flag of the United States is gratifying, for over five hundred thousand tons of the increase represent tonnage which formerly operated under foreign flags. It has not, however, prevented a severe shortage in available commercial tonnage. A large number of enemy ships are interned in the ports of the belligerents and of neutral countries; many have been destroyed; some have been requisitioned for military uses; the free movement of others has been in-

terfered with by detention at British and French ports; and meanwhile British shipyards, which are the principal source of the world's deep-sea tonnage, have, because of their larger use for military and naval purposes, greatly reduced their current output of merchant tonnage. American shipyards report an extraordinary volume of new orders, but most of them do not call for delivery before the last quarter of the year 1916 or the first half of 1917.

This shortage in merchant tonnage, accompanied by frequent delays at European ports and by an unusually large volume of foreign-bound freight is chiefly responsible for the unprecedented rise in ocean freight rates which has occurred. In the trade with European countries present freight rates average from five to six times the rates which prevailed before the war began, and in other parts of the world, although far removed from the battlefields, they also average from three to four times the rates which were formerly charged. The increase of our registered merchant fleet, moreover, may not prove to be a permanent increase unless speedy action is taken by Congress with a view to making it commercially possible to remain under the American flag during times of peace. The beneficial effects of the amended ship-registry act of 1914 are partly, at least, counteracted by the Seamen's Act of March 1915, which further increases the operating costs of American ships as compared with those of vessels operating under foreign flags. Whether or not the sale of its fleet by the Pacific Mail Steamship Company was due entirely to this statute and to the clause in the Panama Canal Act which prohibits railroad vessels from using the canal is immaterial. Their sale was undoubtedly encouraged by these statutes, as was also the transfer of various additional American vessels to foreign flags and to Canadian terminals. The trade between the Pacific coast of the United States and China has been needlessly burdened by an acute shortage in tonnage, which, unless it is remedied soon, is likely to have effects difficult to overcome in the future.

While little has thus far been accomplished during the war in furtherance of the country's future foreign commerce, and

the effects of the war from this viewpoint have been disappointing, something has in fact been accomplished: (1) The exports from the United States to the non-European markets have in recent months begun to increase, and some of the trade which was formerly conducted by Europe is being transferred to the United States; (2) a beginning has been made in the establishment of American branch banks in Latin-America, three having been established in Brazil, one in Argentina, one in Uruguay and one in Cuba; (3) the American deep-sea merchant fleet has, temporarily at least, been largely augmented; and (4) the serious embarrassment of commerce resulting from the lack of sufficient ocean-going vessels, and the difficulties incident to the transfer to the American flag of vessels which were formerly owned by foreign capital, has emphasized the desirability of a larger American merchant marine as nothing else had ever succeeded in doing.

A program which looks to the future growth of foreign commerce, to the permanent retention of such vessels as have registered under the American flag, and to the further increase of the merchant marine, is doubtless of more interest than criticism of the general course which has thus far been pursued since the European war began. The abnormal war trade with Europe has been preferred because the immediate profits which it promised were immense, but that attention will swing back to normal trade channels after peace returns, if not sooner, is scarcely subject to doubt.

To further these aims, it is believed that the merchant marine engaged in the foreign trade should be encouraged in three ways: (1) negatively by revising the navigation laws, a revision which may well begin by amending section 13 of the Seamen's Act so as to eliminate the language test and the minimum percentages of able seamen among the deck crew; and (2) positively by subsidizing a limited number of steamship lines in the South American, Oriental, Australasian and South African trades so as to make it possible for them to render a service equal in quality to that which is enjoyed by European exporters and importers. Something more than the revision of the navigation laws is necessary, for such revision

could not and ought not to be so severe as to eliminate the full difference between the operating costs of American and foreign vessels. Funds paid to a limited number of lines operating under definite government contracts which require a service of agreed frequency, rapidity, and general excellence would do much to enable the American exporter of manufactured wares more readily to compete in the most promising of the world's markets. The experience of foreign countries has made it clear that subsidies paid under contract make possible steamship services better than the traffic of the moment warrants, the subsidized vessels acting as a means of promoting trade—as trade pioneers and not only as transportation vehicles. The appointment of a federal shipping board to make detailed recommendations as to the revision of the navigation laws and to administer the subsidy policy so as to guarantee its effective application would do much to promote the future trade and shipping of the United States. Assistance of this kind would do more to build up an American merchant marine than the policy of government ownership of steamships. Such a policy would have a discouraging effect upon private steamship companies and would probably in the long run tend to check rather than promote the growth of American shipping. It is doubtful, moreover, whether in the absence of private incentive the government-owned vessels would be operated as efficiently as government-subsidized but privately owned steamship lines. The most effective sphere of government activity is to regulate and assist rather than to undertake the actual operation of merchant vessels. (3) American vessels and their cargoes should be protected against foreign seizure or detention to the full extent that international law permits. The value of this protection may seem less permanent than the other remedies which have been suggested, because vessels and cargoes are seized or detained only when nations are at war; but who can tell how long the present conflict will continue, and what guarantee is there that others will not occur in the future? The enforcement of the policy regarding the “freedom of the seas” as announced in the note addressed to Great Britain on October 21, is essential to the maximum growth of American shipping and foreign commerce.

The legislative program might also include a modification of the anti-trust statutes in such a way as to permit industrial or commercial concerns to combine in the conduct of their export trade. Small as well as large American concerns could then more readily obtain a fair share of the foreign trade; joint marketing organizations could be more readily developed; and competition could be directed against foreign competitors instead of against domestic rivals.

When unwise legal restrictions have been removed and adequate steamship facilities have been provided, it then behooves the private interests engaged in the foreign trade to promote their foreign transactions in every way that they legitimately can. These interests include not only the manufacturers and other producers, and the various types of export and import merchants, but also the country's banks and the investing public. The establishing of foreign branch banks greatly facilitates international settlements and the extension of needed credits, and should also do much to encourage the foreign investment of American capital. That foreign trade follows investment has become a trade axiom. As was stated by the chief of the bureau of foreign and domestic commerce, which aims to assist in the development of the foreign trade, "It is only through the investment of capital that foreign trade can be secured and held. If the United States is serious in her desire to develop foreign trade, she must lend; she must invest; she must buy foreign securities."

Considerable sums of American money have been invested in Canada, in Mexico, in the Central American countries, and in some of the West India Islands, and it is not a mere coincidence that our relative trade position has been stronger there than in South American and Oriental countries. In South America and elsewhere the investment of American money has made but a bare beginning in comparison with what has been done by British and German investors. To increase our exports permanently it is necessary that extensive investments be made in the newer countries of the world; the railroads, street railways, mines, ranches, land companies, and other industries so financed will then encourage the purchase of American

exports, just as British, German and other European investments have fostered the foreign trade of Europe. Moreover, investments abroad are essential to stabilize international exchange, for if the exports of the United States are to increase rapidly something must be done to balance the country's excess of exports over imports. I do not refer to the impossible temporary excess which exists at present, but to a safe and sane balance such as would probably result from the normal increase of the export trade in times of peace. This can be done in part by an increase in imports, but assuredly it is not the intention of American exporters to be governed solely by the purchase of foreign commodities. The excess of exports can also be covered in part by the re-purchase of American securities now held in Europe, although the relief so afforded would last only until liquidation is completed. The ultimate solution is the purchase of foreign securities—the investment and re-investment of American capital in the countries where it is hoped to find the largest foreign markets for American exports. International trade in securities and in commodities goes hand in hand, and particularly is this the case in those commercially undeveloped countries whose trade the United States is anxious to acquire.

(184)